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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
22 January 1955

TO: Deputy Director (Intelligence)

SUBJECT: The Economic Situation in Turkey

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1. Turkey's economic situation has deteriorated markedly during the past year, and a recent comprehensive study by American officials in Ankara indicates that this trend will continue unless direct remedial action is taken. The Menderes government appears to be determined to push its ambitious development program despite domestic inflation and the foreign debt problems, apparently gambling on an increased flow of credit from Europe and on extensive economic assistance from the United States.

2. Despite outward signs of economic prosperity, the cost-of-living is rising sharply, and industrial and commodity inventories are being depleted. The cost-of-living in Istanbul jumped 7.11 percent during December, and state monopolies throughout Turkey recently announced price increases averaging 20 percent. The mounting foreign trade deficits and the critical shortage of foreign exchange are resulting in a sharp decrease in imports from Western Europe and a drying up of normal credit sources abroad. There is a shortage of essential raw materials, construction materials, and spare parts. In spite of this situation, the proposed Turkish budget for the fiscal year beginning in March 1955 provides for expenditures 30 percent higher than in 1954. This indicates a determination to accelerate the pace of economic development at a time when consolidation and retrenchment are needed. The increased budget, along with recent measures to relax bank credit restrictions, suggests that Ankara has not yet decided to come to grips with its economic problems and make serious efforts to attain greater economic stability.

3. The economic stabilization program announced last May has failed primarily because the government has followed an inflationary policy in advancing its development program and has allowed Turkey's foreign trade to attain a serious imbalance. In spite of Ankara's efforts to settle foreign commercial debts bilaterally, they are estimated to be approximately \$150,000,000.

4. The increasing reluctance of Western European countries to advance additional credits has turned Ankara toward bilateral

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and barter trade arrangements. Barter trade in nonstrategic commodities with countries of the Soviet bloc has markedly increased during 1954. Turkish exports to the Orbit during the first nine months of 1954 were 62 percent greater than Turkey's total exports to the Orbit countries during 1953. Turkey's exports to the Orbit during the first seven months of 1954 represented 20.5 percent of Turkey's total export trade. By mid-December Turkey had accumulated a \$2,500,000 credit with the USSR and favorable balances of \$1,000,000-\$3,000,000 with Hungary, Poland, and Rumania. Representatives from the Bulgarian Ministry of Foreign Commerce arrived in Ankara in mid-January for two weeks of trade negotiations, and there have been increased activities by purchasing delegations from Eastern Germany and other bloc countries. Despite this trend toward augmented trade with the Orbit, the political orientation of Turkey toward the West will almost certainly not be effected. In the absence of a workable trade balance with the countries of Western Europe, Ankara has no alternative but to trade with those countries with which it has a favorable trade balance or with whom it can make barter exchanges.

5. Turkey is trying to link the settlement of its foreign commercial debts to promises of medium-term or long-term foreign credits. These restricted credit guarantees have been estimated as high as \$400,000,000, but Ankara has been unable to exploit them fully because of its inability to pay off its commercial indebtedness.

6. Turkey has a steadily rising gross national product and is experiencing the benefits of widespread transportation and communications improvements, industrialization, mechanization of agriculture, and greater exploitation of natural resources. The Menderes government is determined not to retrench this policy despite the apparent drying up of essential sources of foreign capital. Menderes unsuccessfully sought a \$500,000,000 loan from the United States government last summer and is again making approaches for a substantial American loan. Rumors also persist that the USSR may offer credits or loans to Ankara.

7. The recent "Heuser Report" concerning the Turkish financial situation concluded that devaluation would "assist the Turkish government in restoring stability at home and solvency abroad, provided this two-fold goal becomes the major objective of Turkish economic policy." Menderes, who apparently regards such a measure as politically unwise, reasserted in December before a committee of the Grand National Assembly that devaluation "would never be possible." The belief in eventual devaluation, which has been an important factor in the Istanbul black market, has, nevertheless, become a matter of day-to-day concern to the Turkish business community.

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8. The relatively gloomy assessment of Turkey's economic future made recently by officials of the International Bank for Reconstruction and Development may have resulted in part from personality conflicts between representatives of the bank who visited Turkey and officials of the Turkish government. Officials of the bank tend to view the Turkish situation in terms of strict economic and banking principles and perhaps fail to take into consideration the political factors that make an economically strong Turkey a necessity for the West.

9. Responsible officials in the Departments of State and Commerce, fully mindful of Turkey's defense contribution, its strategic location, and the importance of its continued leadership in the Middle East, appear to believe that the economic problems can and must be coped with. West Germany's increasing activity in Turkey and its willingness to gamble on extensive credits for capital investment there indicate that Bonn also recognizes the importance of Turkey in world politics. Officials of State and Commerce acknowledge the inherent dangers in the present dilemma, but they tend to regard the long-term prospects with restrained optimism.

10. Turkey's defense posture is reported to be improving but substantial military aid will be required for several years before it will fill the mission assigned by NATO. It cannot attain stability nor support its present and projected defense establishment without substantial assistance. To be effective, economic assistance, whether in the form of credits, grants, or loans, will have to be accompanied by careful guidance, long-term co-ordinated planning, and the maintenance of strict controls by the Turkish government.

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Appendix

TURKEY

I. THE ECONOMIC SITUATION IN TURKEY

Price Index
(1950=100 percent)

	Wholesale		Retail	
	1953	1954	1953	1954
Jan	110	119	106	115
Feb	111	123	105	116
Mar	110	121	105	114
Apr	111	121	106	120
May	111	122	107	121
June	109	121	108	122
July	106	122	108	119
Aug	106	-	109	-
Sept	108	-	109	-
Oct	109	-	109	-
Nov	112	-	109	-
Dec	115	-	110	-

*Source: Organization for European Economic Cooperation,
General Statistics, No. 6, November 1954, P. 140.

II. CURRENCY EXCHANGE RATE
(Official Selling Rate 2.825 Turkish Lira=1 US dollar)

Open Market Rate

1953		1954	
July	5.20 TL=1 US \$	Jan	5.58
Aug	5.42	Feb	5.78
Sept	5.70	Mar	5.97
Oct	5.62	Apr	6.35
Nov	5.62	May	6.08
Dec	5.59	June	6.32
		July	6.33
		Aug	5.91
		Sept	6.31

*Source: International Monetary Fund, International Financial Statistics, December 1954, p.158-159.

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III. CUMULATIVE DEFICIT POSITON WITHIN
EUROPEAN PAYMENTS UNION
(Figures represent millions of US dollars)

	1953	1954
Jan	-134.6	-167.2
Feb	-128.4	-172.8
Mar	-131.9	-184.5
Apr	-127.0	-206.3
May	-122.5	-216.0
June	-120.3	-215.7
July	-127.4	-224.5
Aug	-120.4	-225.3
Sept	-123.5	-228.2
Oct	-125.1	-
Nov	-145.7	-
Dec	-159.1	-

*Source: Foreign Operations Administration, European Regional Data Book, 1954.

IV. FOREIGN TRADE-AVERAGE MONTHLY FIGURES
(Value in millions of US dollars)

	Imports	Exports	Balance
1946	6.7	12.9	6.2
1947	20.4	18.6	-1.8
1948	22.9	16.4	-6.5
1949	24.2	20.6	-3.6
1950	23.9	22.0	-1.9
1951	33.5	26.2	-7.3
1952	46.3	30.3	-16.0
1953	44.4	33.0	-11.4
1954 (Jan-Sept only)	40.1	24.6	-15.5

*Source: Organization for European Economic Cooperation, General Statistics, No. 6, November 1954.

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V. TOTAL TURKISH FOREIGN TRADE
(January-September only)**

	1953	1954
Imports	\$381,000,000	\$361,000,000
Exports	\$274,000,000	\$221,000,000
Deficit	\$106,000,000	\$140,000,000
(31 percent increase in trade deficit)		

** Official trade figures are available for only first nine months of 1954.

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